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# Checklists and illustrative financial statements for finance companies : a financial accounting and reporting practice aid, December 1993 edition

American Institute of Certified Public Accountants. Technical Information Division

Karyn M. Waller

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# **AICPA**

**DECEMBER 1993  
EDITION**

## ***Checklists and Illustrative Financial Statements for Finance Companies***

*A Financial Accounting and  
Reporting Practice Aid*

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- Checklists and Illustrative Financial Statements for State and Local Governmental Units*



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## ***Checklists and Illustrative Financial Statements for Finance Companies***

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*A Financial Accounting and  
Reporting Practice Aid*

*Edited by  
Karyn M. Waller, CPA  
Technical Manager, Technical Information Division*

*Checklists and Illustrative Financial Statements for  
Finance Companies has not been approved, disapproved,  
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committees of the American Institute of Certified Public  
Accountants or the Financial Accounting Standards  
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# CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR FINANCE COMPANIES

.01 The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.
- The checklists and illustrative financial statements have been updated through SAS No. 72, FASB Statement of Financial Accounting Standards No. 117, FASB Interpretation No. 40, FASB Technical Bulletin No. 90-1, AICPA Statement of Position 93-5, AICPA Audit and Accounting Guide, *Audits of Finance Companies* (with conforming changes as of May 1, 1993), and EITF consensuses adopted up to and including the July 22, 1993, Emerging Issues Task Force meeting. In addition, disclosures related to statement on standards for Attestation Engagements No. 2 have been included. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.
- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification needed to determine whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being presented.

.02 Users of these checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline.

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# Introduction

.01 Finance companies provide lending and financing services to consumers and business enterprises. The provisions of the AICPA Audit and Accounting Guide, *Audits of Finance Companies*, apply to independent and captive financing activities. It does not apply to banks, savings institutions, credit unions, or insurance companies because those entities are covered by other audit and accounting guides. However, the Finance Companies Guide does apply to finance company subsidiaries of such entities.

.02 Numerous state and federal statutes affect finance company operations. Some statutes apply only to specific types of activities. Regulations affecting finance companies generally are limited to matters such as loan amounts, repayment terms, interest rates, and collateral; they generally do not deal with financial accounting and reporting.

.03 Common accounting and reporting practices by finance companies include:

- Accrual basis of accounting is the only acceptable basis of accounting under GAAP. Some finance companies may report certain immaterial revenue and expense items on a cash or modified cash basis.
  - Finance companies usually prepare a nonclassified balance sheet.
  - The income statement may be reported on a "net interest income" basis. (Interest expense is deducted from interest revenues to arrive at net interest income.)
  - Alternately, the income statement may emphasize interest revenues with interest expense included with other operating expenses.
  - The provision for loans losses usually is reported as a deduction from net interest income, where the net interest income format is used.
  - The recognition of interest income on finance receivables should be based on the interest method. The use of the Rule of 78's, the combination method, and the cash method are no longer considered acceptable.
  - Inclusion of interest as a holding cost in determining the carrying amount of repossessed collateral expected to be held for more than a brief period is acceptable.
  - GAAP applicable to business entities in general apply to finance companies.
  - Foreclosed assets held for sale are carried at the lower of (a) fair value minus estimated costs to sell or (b) cost. Foreclosed assets held for the production of income are treated the same way they would have been had the assets been acquired in a manner other than through foreclosure.
-



# ***Checklists—General***

**.01** Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners, as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

**.02** Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins, AICPA Statements of Position, and EITF consensuses. Some checklists also include references to FASB Interpretations and the AICPA Audit and Accounting Guides. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

**.03** Checklists usually provide for checking off or initialing each question or point to show that it has been considered. The format used herein is a typical one; it provides for “yes,” “no,” and “not applicable” answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist, while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: “not applicable,” “not material,” “in statements,” and “in notes” (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, “disclosed” and “not applicable.” Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

**.04** Checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

**.05** If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

# Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

## .02 Explanation of References:

ARB =	AICPA Accounting Research Bulletin
APB =	AICPA Accounting Principles Board Opinion
SFAS =	AICPA Statement of Financial Accounting Standards
SAS =	AICPA Statement on Auditing Standards
FASBI =	FASB Financial Accounting Standards Board Interpretation
TB =	Technical Bulletin issued by the staff of the FASB <sup>1</sup>
AC =	Reference to section number in <i>FASB Accounting Standards—Current Text</i>
AU =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
AAG =	AICPA Audit and Accounting Guide, <i>Audits of Finance Companies</i> (with conforming changes as of May 1, 1993)
SOP =	AICPA Statement of Position
EITF =	Emerging Issues Task Force Consensus (up to and including the July 22, 1993 Emerging Issues Task Force meeting)

## .03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>General</b>			
<b>A. Titles and References</b>			
1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
2. Does each statement include a general reference to the notes indicating that they are an integral part of the financial statements? [Generally Accepted]	_____	_____	_____
<b>B. Disclosure of Accounting Policies</b>			
1. Is a description of all significant accounting policies of the reporting entity presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]	_____	_____	_____
2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, allocation of asset costs to current and future periods, and loss reserve policies? [APB 22, par. 12 (AC A10.105); TB 82-1, par. 7 (AC I25.506)]	_____	_____	_____

<sup>1</sup> The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	_____	_____	_____
4. Does the disclosure of significant accounting policies include an explanation of the accounting policy for debt securities held, including the basis for classification into balance-sheet captions, such as investment or trading? [AAG, App. A (SOP 90-11, par. 8)]	_____	_____	_____
<b>C. Accounting Changes</b>			
1. For all changes in accounting principles, are the following disclosures made in the year of change:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change?	_____	_____	_____
c. Effect on income before extraordinary items and on net income?	_____	_____	_____
d. Effect on related per-share amounts? [APB 20, pars. 17 and 19 (AC A06.113 and .115)]	_____	_____	_____
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? [APB 20, pars. 19—22, 25 (AC A06.115—.118 and .121)]	_____	_____	_____
3. For changes in the method of accounting for postretirement life insurance and health care benefits, are appropriate disclosures made? [SFAS 106, par. 115]	_____	_____	_____
4. For those changes in accounting principles requiring restatement of prior periods, is the effect of the change disclosed for all periods presented? [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]	_____	_____	_____
5. For a change in accounting estimate affecting several future periods, is the effect on income before extraordinary items and on net income disclosed in the year of change? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
6. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:			
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on income before extraordinary items, net income, and related per share amounts? [APB 20, pars. 36—37 (AC A35.105); SFAS 109, par. 288n (AC A35.103)]	_____	_____	_____
<b>D. Comparative Financial Statements</b>			
1. Are comparative statements considered? [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
<b>E. Business Combinations</b>			
1. If a business combination occurred during the period and met the specified conditions for a pooling-of-interests: [APB 16, pars. 45—48 (AC B50.104—.107)]			
a. Is the pooling-of-interest method of accounting applied? [APB 16, pars. 50—62 (AC B50.109—.121)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Do the statements and notes include the required disclosures? [APB 16, pars. 63—65 (AC B50.122—.124)]	_____	_____	_____
2. If a business combination is accounted for by the purchase method do the statements and notes include the required disclosures? [APB 16, pars. 95—96 (AC B50.164—.165)]	_____	_____	_____
3. Where the company has purchased an enterprise and applied guidance outlined in EITF 87-11 regarding the intended disposition of a subsidiary in accounting for the purchase, where the subsidiary has not yet been disposed, are the following disclosed:			
a. A description of the operations held for sale, the method used to assign amounts to those assets, the method used to account for those assets, and the expected disposal date?	_____	_____	_____
b. The operation's profit or loss that has been excluded from the consolidated income statement during the period, together with a schedule reconciling that amount to the earnings received or losses funded by the parent that have the carrying amount of the assets (the amount of allocated interest cost should be separately identified)?	_____	_____	_____
c. Any gain or loss on the ultimate disposition that has been treated as an adjustment of the original purchase price allocation? [EITF 90-6]	_____	_____	_____
<b>F. Consolidations (See Exhibit C)</b>			
1. If consolidated statements are presented:			
a. Is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]	_____	_____	_____
b. Are intercompany balances and transactions eliminated? [ARB 51, par. 6 (AC C51.109)]	_____	_____	_____
c. In instances when the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations? [ARB 51, par. 4 (AC C51.107); FASBI 13 (AC I89.120—.122)]	_____	_____	_____
2. Are the accounts of majority-owned subsidiaries consolidated? [SFAS 94, par. 13 (AC C51.103)]	_____	_____	_____
3. If the conditions of EITF 90-15 are met, does the lessee consolidate the assets, liabilities, results of operations, and cash flows of the special-purpose entities that are established for both the construction and subsequent lease of an asset in its financial statements?	_____	_____	_____
a. Does consolidation occur at the inception of the lease rather than at the beginning of the lease term? [EITF 90-15]	_____	_____	_____
<b>G. Related-Party Transactions and Economic Dependency</b>			
1. For related-party transactions, do disclosures include:			
a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholders, etc.)?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to understand the effects of the transactions on the financial statements?	_____	_____	_____
c. The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2—4 (AC R36.102—.104)]	_____	_____	_____
e. If the company is part of a group that files a consolidated tax return, is the amount of current and deferred tax expense disclosed for each of the periods for which income statements are presented and the amount of any tax-related balance due to or from affiliates as of the date of each balance sheet presented disclosed?	_____	_____	_____
f. Are the principal provisions of the method in which current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in the method disclosed for each of the periods for which income statements are presented? [SFAS 109, par. 49 (AC I25.129)]	_____	_____	_____
2. Is information about economic dependency disclosed when necessary for a fair presentation? [SFAS 21, par. 9 (AC S20.103)]	_____	_____	_____
3. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting company and one or more other enterprises are under common ownership or management control, and the existence of the control could result in operating results or financial position of the reporting company being significantly different from those that would have resulted if the company was autonomous? [SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]	_____	_____	_____
<b>H. Financial Instruments</b>			
1. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed, either in the body of the financial statements or in the notes, by class of financial instrument: <sup>2</sup>			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	_____	_____	_____
(2) The cash requirements of those instruments?	_____	_____	_____
(3) The related accounting policy pursuant to the requirements of APB 22 [AC A10]? [SFAS 105, par. 17 (AC F25.112)]	_____	_____	_____
2. For financial instruments with off-balance-sheet risk (except as noted above in Step 1.), are the following disclosed, either in the body of the financial statements or in the notes, by class of financial instrument:			
a. The amount of accounting loss the company would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and if the collateral or other security, if any, for the amount due proved to be of no value to the company?	_____	_____	_____
b. The company's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the company's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 (AC F25.113)]	_____	_____	_____

<sup>2</sup> Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS 105 [AC F25], class of financial instrument refers to those classifications.



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The amount of the accounting loss due to credit risk the company would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts if and the collateral or other security, if any, for the amount due proved to be of no value to the company?	_____	_____	_____
c. The company's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the company's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
4. For all fiscal years subsequent to the year of transition, are SFAS 105 disclosures included for each year for which a balance sheet is presented for comparative purposes? [SFAS 105, par. 22]	_____	_____	_____
5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107) disclosed, either in the body of the financial statements or in the accompanying notes? [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
6. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed? [SFAS 107, par. 10 (AC F25.115c)]	_____	_____	_____
7. If it is not practicable to estimate the fair market value of a financial instrument, the following disclosed:			
a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25.115G)]	_____	_____	_____
<b>I. Contingencies and Commitments</b>			
1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)]	_____	_____	_____
2. For loss contingencies not accrued, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109 and .111)]	_____	_____	_____
3. Are the nature and amount of guarantees disclosed (i.e., obligations under standby letters of credit, guarantees to repurchase loans that have been sold)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1—3 (AC C59.114)]	_____	_____	_____
4. Are gain contingencies adequately disclosed and misleading implications about likelihood of realization avoided? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
5. Is there adequate disclosure of commitments, such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, and for funding of loans? [SFAS 5, pars. 18—19 (AC C59.120); FASB 80 (AC F80)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>J. Subsequent Events</b>			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the balance-sheet date? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, 560.07 and 561.01—.09 (AU 560.03—.04, 560.07 and 561.01—.09)]	_____	_____	_____
2. Are subsequent events that provide evidence about conditions that did not exist at the balance-sheet date, but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05—.07, 560.09 and 561.01—.09 (AU 560.05—.07, 560.09 and 561.01—.09)]	_____	_____	_____
<b>K. Pension Plans—</b> (For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 [AC Pe35])			
1. If there is a defined benefit plan, do disclosures include:			
a. A description of the plan, including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 54a (AC P16.150a)]	_____	_____	_____
b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components? <sup>3</sup> [SFAS 87, par. 54a (AC P16.150a)]	_____	_____	_____
c. All amounts shown within three months of the balance-sheet date using a consistent date from year to year (estimates may be necessary)? [SFAS 87, par. 52 (AC P16.148)]	_____	_____	_____
d. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial condition, showing separately:			
(1) The fair value of plan assets?	_____	_____	_____
(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?	_____	_____	_____
(3) The amount of unrecognized prior service cost?	_____	_____	_____
(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC P16]?	_____	_____	_____
(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC P16.130)?	_____	_____	_____
(7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to SFAS 87, paragraphs 35—36 (AC P16.129—.130) (which is the net result of combining the preceding six items)? [SFAS 87, par. 54c (AC P16.150c)]	_____	_____	_____

<sup>3</sup> The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87. That net total includes:

(1) The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets).

(2) Amortization of the net gain or loss from earlier periods.

(3) Amortization of unrecognized prior service cost.

(4) Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets? [SFAS 87, par. 54d (AC P16.150d)]	_____	_____	_____
f. If applicable, the amounts and types of securities of the employer and related parties included in plan assets and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties? [SFAS 87, par. 54e (AC P16.150e)]	_____	_____	_____
g. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 (AC P16.120 and .127), and the existence and nature of the commitment discussed in SFAS 87, paragraph 41 (AC P16.135)? [SFAS 87, par. 54e (AC P16.150e)]	_____	_____	_____
h. If more than one defined benefit plan exists:			
(1) Are the required disclosures required by Step 1. above aggregated for all of the employer's single-employer defined benefit plans or disaggregated in groups so as to provide the most useful information?	_____	_____	_____
(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?	_____	_____	_____
(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless those plans use similar economic assumptions? [SFAS 87, par. 56 (AC P16.153)]	_____	_____	_____
2. If there is a defined contribution plan, do disclosures include:			
a. A description of the plan(s), including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 65 (AC P16.162)]	_____	_____	_____
c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:			
(1) Is the substance of the plan to provide a defined benefit?	_____	_____	_____
(2) If answer is yes, are disclosures required for a defined benefit plan made? [SFAS 87, par. 66 (AC P16.163)]	_____	_____	_____
3. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan(s), including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented? [SFAS 87, par. 69a (AC P16.166a)]	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 87, par. 69b (AC P16.166b)]	_____	_____	_____
c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations that is either probable or reasonably possible, are the provisions of SFAS 5 (AC C59) applied? [SFAS 87, par. 70 (AC P16.167)]	_____	_____	_____
4. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such plan, do disclosures include:			
a. A description of the nature of the event(s)?	_____	_____	_____
b. The amount of gain or loss recognized? [SFAS 88, par. 17 (AC P16.187)]	_____	_____	_____

Yes      No      N/A

5. If a company terminates a defined benefit plan and (1) contributes the assets withdrawn to either a defined contribution plan or an ESOP, (2) the amount contributed is in excess of the employer's required annual contribution to the plan, and (3) the risk and rewards of the ownership of the assets are retained by the employer, are the following considered:

For a defined contribution plan:

- a. Is the excess contribution that is not allocated to individual participants accounted for as an asset regardless of the source of funds? \_\_\_\_\_
- b. Is the unallocated amount treated as if it were part of the employer's investments portfolio and recorded as an asset? \_\_\_\_\_
- (1) Is the income attributed to such securities including dividends, interest and realized gains and losses reported in a manner consistent with the employer's reporting of similar items? \_\_\_\_\_
- c. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements? \_\_\_\_\_
- d. Are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements? \_\_\_\_\_

[EITF 86-27]

For an ESOP:

- a. If the excess contribution is not allocated to individual participants, are the unallocated share of the employer's own commons stock reported as a reduction of stockholders' equity, as if they were treasury stock? \_\_\_\_\_
- b. Are the unallocated assets consisting of the employer's own stock recorded as treasury stock in the employer's financial statements? \_\_\_\_\_
- c. Are the unallocated assets consisting of the employer's debt securities recorded as assets (rather than debt extinguishment) in the employer's financial statements? \_\_\_\_\_

[EITF 86-27]

**L. Postretirement Health Care and Life Insurance Benefits** (Assumes adoption of SFAS 106—See Exhibit A if SFAS 106 has not been adopted)

1. If there are one or more defined benefit postretirement plans, do disclosures include:

- a. A description of the substantive plan(s) that is the basis for the accounting, including the nature of the plan, any modifications of the existing cost-sharing provisions that are encompassed by the substantive plan(s), and the existence and nature of any commitment to increase monetary benefits provided by the postretirement benefit plan, employee groups covered, types of benefits provided, funding policy, types of assets held and significant nonbenefit liabilities, and the nature and effect of significant matters affecting the comparability of information for all periods presented, such as the effect of a business combination or divestiture? \_\_\_\_\_
- b. The amount of net periodic postretirement benefit cost showing separately the service cost component, the interest cost component, the actual return on plan assets for the period, amortization of the unrecognized transition obligation or transition asset, and the net total of other components? <sup>4</sup> \_\_\_\_\_

<sup>4</sup> The net total of other components is generally the net effect during the period of certain delayed recognition provisions of SFAS 106 [AC P40]. That net total includes:

- a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets).
- b. Amortization of unrecognized prior service cost.
- c. Amortization of the net gain or loss from earlier periods.
- d. Any gain or loss recognized due to a temporary deviation from the substantive plan (paragraph 61 of SFAS 106 [AC P40.156]).

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately:			
(1) The fair value of plan assets?	_____	_____	_____
(2) The accumulated postretirement benefit obligation, identifying separately the portion attributable to retirees, other fully eligible plan participants, and other active plan participants?	_____	_____	_____
(3) The amount of unrecognized prior service cost?	_____	_____	_____
(4) The amount of unrecognized net gain or loss (including plan asset gains and losses not yet reflected in market-related value)?	_____	_____	_____
(5) The amount of any remaining unrecognized transition obligation or transition asset?	_____	_____	_____
(6) The amount of net postretirement benefit asset or liability recognized in the statement of financial condition, which is the net result of combining the preceding five items?	_____	_____	_____
d. The assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan (gross eligible changes) for the next year and a general description of the direction and pattern of change in the assumed trend rate(s) thereafter, together with the ultimate trend rate(s), and when the rate(s) is expected to be achieved?	_____	_____	_____
e. The weighted average of the assumed discount rate(s) and rate(s) of compensation increase (for pay-related plans) used to measure the accumulated postretirement benefit obligation and the weighted average of the expected long-term rate(s) of return on plan assets and, for plans whose income is segregated from the employer's investment income for tax purposes, the estimated income tax rate(s) included in that rate of return?	_____	_____	_____
f. The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on:			
(1) The aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and the accumulated postretirement benefit obligation for health care benefits (for purposes of this disclosure, all other assumptions should be held constant and the effects should be measured based on the substantive plan that is the basis for the accounting)?	_____	_____	_____
g. The amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer and related parties?	_____	_____	_____
h. Any alternative amortization method used pursuant to paragraph 53 or 60 of SFAS 106 (AC P40.148 or .155)?	_____	_____	_____
i. The amount of gain or loss recognized during the period for a settlement or curtailment and a description of the nature of the event(s)?	_____	_____	_____
j. The cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event(s)? [SFAS 106, par. 74a—j (AC P40.169a—j)]	_____	_____	_____
2. If more than one defined benefit postretirement plan exists:			
a. Are the disclosures required by Step 1. above aggregated for all of an employer's single-employer defined benefit postretirement plans or disaggregated in groups so as to provide the most useful information (except for purposes of the disclosures required by Step 1.c. above, the aggregate plan assets and the aggregate accumulated postretirement benefit obligation of the underfunded plans should be separately disclosed)? [SFAS 106, par. 77 (AC P40.172)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Are plans that primarily provide postretirement health care benefits and plans that primarily provide other postretirement welfare benefits separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans?	_____	_____	_____
c. Are plans inside the U.S. and plans outside the U.S. separately disclosed if the accumulated postretirement benefit obligation of the latter plans is significant relative to the aggregate accumulated postretirement benefit obligation for all of the plans? [SFAS 106, par. 78 (AC P40.173)]	_____	_____	_____
3. If there is a multiemployer plan, do disclosures include:			
a. A description of the multiemployer plan(s), including the employee groups covered, the type of benefits provided (defined benefits or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of postretirement benefit cost recognized during the period, if available (otherwise, the amount of the aggregate required contribution for the period to the general health and welfare benefit plan that provides health and welfare benefits to both active employees and retirees should be disclosed)? [SFAS 106, par. 82a—b (AC P40.178)]	_____	_____	_____
c. Are the provisions of SFAS 5 (AC C59) applied if the situation arises where withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation, and it is either probable or reasonably possible that:			
(1) An employer would withdraw from the plan under circumstances that would give rise to an obligation?	_____	_____	_____
or			
(2) An employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage? [SFAS 106, par. 83 (AC P40.179)]	_____	_____	_____
4. If there are one or more defined contribution postretirement plans, are the following items disclosed separately from defined benefit postretirement plan disclosures:			
a. A description of the plan(s), including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?	_____	_____	_____
b. The amount of cost recognized during the period? [SFAS 106, par. 106 (AC P40.198)]	_____	_____	_____

#### **M. Other Matters**

1. If required, does the financial statement presentation include segment information?  
[SFAS 14 (AC S20); SFAS 24 (AC S20.109—.110); SFAS 30, par. 6 (AC S20.145); TBs 79-4, 79-5 and 79-8 (AC S20.501—.507)]

#### **Balance Sheet**

- A. Investment Securities** (Assumes the adoption of SFAS 115—See Exhibit C if SFAS 115 has not been adopted)
  1. If significant, is the amount of the insurance subsidiary's marketable securities deposited with state regulatory authorities disclosed?  
[AAG, par. 5.19]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. For debt and marketable equity securities classified as available-for-sale or held-to-maturity, are the following disclosures made, by major-security type, for each balance sheet presented:			
a. Aggregate fair value?	_____	_____	_____
b. Gross unrealized holding gains or losses?	_____	_____	_____
c. Amortized cost basis?	_____	_____	_____
d. Disclosure of major-security types including:			
(1) Equity securities?	_____	_____	_____
(2) Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies?	_____	_____	_____
(3) Debt securities issued by states of the U.S. and political subdivisions of the states?	_____	_____	_____
(4) Debt securities issued by foreign governments?	_____	_____	_____
(5) Corporate debt securities?	_____	_____	_____
(6) Mortgage-backed securities?	_____	_____	_____
(7) Other debt securities?	_____	_____	_____
(8) Other security types as deemed appropriate? [SFAS 115, par. 19 (AC I80.118)]	_____	_____	_____
3. For investments in debt securities classified as available-for-sale or held-to-maturity, is:			
a. Disclosure made about their contractual maturities as of the date of the latest balance-sheet date presented (maturity information may be combined in appropriate groupings)?	_____	_____	_____
b. Disclosure of the fair value and the amortized cost of debt securities in at least four maturity groupings:			
(1) Within one year?	_____	_____	_____
(2) After one year through five years?	_____	_____	_____
(3) After five years through ten years?	_____	_____	_____
(4) After ten years? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
4. Is consideration given to separate disclosure for securities not due at a single date and the basis for allocation if such securities are allocated? [SFAS 115, par. 20 (AC I80.119)]	_____	_____	_____
<b>B. Mortgage Loans</b>			
1. Are mortgage loans held for sale distinguished from mortgage loans held for long-term investment? [SFAS 65, par. 28 (AC Mo4.129)]	_____	_____	_____
2. Are mortgage loans held-for-sale reported at lower of cost or market value? [SFAS 65, par. 4 (AC Mo4.105)]	_____	_____	_____
3. Is the method used in determining lower of cost or market value disclosed (i.e., individual vs. aggregate method)? [SFAS 65, par. 29 (AC Mo4.130)]	_____	_____	_____
4. If the right to service mortgage loans is acquired, is the following information disclosed:			
a. Amount capitalized during period in acquiring right to service?	_____	_____	_____
b. Method of amortizing capitalized amount?	_____	_____	_____
c. Amount of amortization for the period? [SFAS 65, par. 30 (AC Mo4.131)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>C. Finance Receivables</b>			
1. Are both interest-bearing (simple interest) and precomputed (discount) loans classified as finance receivables? [AAG, par. 2.39]	_____	_____	_____
2. Are discount and interest-bearing loans presented similarly on the balance sheet (i.e., discount loans are presented net of unearned interest)?	_____	_____	_____
a. If a company desires to report the gross amount of a discount loan and the related unearned interest or discount, is the amount of unearned interest or discount disclosed in the notes and not in the numbers column of the balance sheet? [AAG, par. 2.39]	_____	_____	_____
3. Are the unamortized balance of loan origination, commitment and other fees and costs, and any purchase premiums and discounts classified on the balance sheet as part of the loan balance to which they relate? [AAG, par. 2.40]	_____	_____	_____
4. Is the composition of finance receivables disclosed, either in the balance sheet or in the notes to financial statements, in a manner that best sets forth the kinds of risks and liquidity involved?	_____	_____	_____
a. Is the amount of accrued interest included in the finance receivables?	_____	_____	_____
b. Is the amount of nonearning assets represented by consumer and commercial loans for which accrual has been suspended separately disclosed?	_____	_____	_____
c. Is there disclosure of information about the terms and maturities of finance receivables?	_____	_____	_____
d. If contractual maturity data is not considered relevant, is data on prior collection experience disclosed? [AAG, pars. 2.42 and 2.44]	_____	_____	_____
5. Are participations classified as finance receivables net of the portions sold or at the net amount bought?	_____	_____	_____
a. Is the amount of such participations combined with other finance receivables on the balance sheet?	_____	_____	_____
b. If material in relation to total receivables, is the amount of participations disclosed?	_____	_____	_____
c. If participations are, in substance, other than a pro rata sharing of risk, are they accounted for as a liability on the balance sheet? [AAG, pars. 4.05 and 4.06]	_____	_____	_____
6. Are unearned premiums and unpaid claims on certain credit life and credit accident and health insurance policies deducted from finance receivables on the face of the consolidated balance sheet?	_____	_____	_____
a. If not, does the balance sheet present only the net finance receivables if the notes to the financial statements contain sufficient disclosure of unearned premiums and unpaid claims? [AAG, par. 5.26]	_____	_____	_____
7. For loans sold with recourse, are the following disclosures made:			
a. For each period for which an income statement is presented, the amount of proceeds?	_____	_____	_____
b. Information required by SFAS 105? [SFAS 77, par. 9 (AC R20.109), as amended by SFAS 105]	_____	_____	_____
8. Under advance factoring arrangements, are the advances to clients applied against amounts owed clients for the purchase of clients' receivables and not recorded as finance receivables?	_____	_____	_____
a. Are factoring overadvances recorded as loans receivable and segregated from customer receivables purchased under factoring arrangements? [AAG, pars. 2.24 and 2.25]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>D. Impairment of Loans Receivable</b> (Assumes adoption of SFAS 114—See Exhibit B if SFAS 114 has not been adopted)			
1. Is the following information disclosed, either in the body of the financial statements or in the accompanying notes:			
a. As of the date of each statement of financial position presented, the recorded investment in the loans for which impairment has been recognized in accordance with SFAS No. 114 and the total allowance for credit losses related to those impaired loans?	_____	_____	_____
b. For each period for which results of operations are presented, the activity in the allowance for credit losses account, including the balance in the allowance for credit losses account at the beginning and end of each period, additions charged to operations, direct write-downs charged against the allowance, and recoveries of amounts previously charged off?	_____	_____	_____
c. The income recognition policy, dealing with the periodic changes in present value of impaired loans?	_____	_____	_____
d. For a company that recognizes income in accordance with this policy, the amount of interest recognized? [SFAS 114, par. 20 (AC 108.118)]	_____	_____	_____
<b>E. Lease Finance Receivables</b>			
1. Do disclosures include:			
a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?	_____	_____	_____
b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date of the latest balance sheet presented?	_____	_____	_____
c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23a, iv (AC L10.119a)]	_____	_____	_____
2. Are leasing arrangements described? [SFAS 13, pars. 23a—c and 29 (AC L10.125 and .130k—.130l); SFAS 91 par. 25; SFAS 98, pars. 17—18]	_____	_____	_____
3. Are leveraged leases appropriately accounted for and reported? [SFAS 13, pars. 41—47 (AC L10.143—.149)]	_____	_____	_____
<b>F. Allowance for Credit Losses</b>			
1. Is the allowance shown on the balance sheet as a deduction from loan and lease finance receivables? [AAG, par. 2.41; APB 12, par. 3 (AC V18—102)]	_____	_____	_____
2. When the accrual of interest income is suspended, is accrued interest not reversed and the potential uncollectibility taken into consideration in the computation of the allowance for losses? [AAG, par. 2.15]	_____	_____	_____
3. Does the allowance for losses adequately reflect conditions, such as the amount of delinquent receivables and the number of days they are past due; local, national, and international economic trends; credit policies and procedures; and the mix of receivables? [AAG, par. 2.09]	_____	_____	_____
4. Do the notes to the financial statements report all of the changes in the allowance for credit losses and show the reserve roll for receivables sold with limited recourse? [AAG, par. 2.41]	_____	_____	_____
<b>G. Property and Equipment</b>			
1. If material, are the balances of major classes of depreciable assets disclosed? [APB 12, par. 5b (AC D40.105b)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Is accumulated depreciation, either by major classes of assets or in total, disclosed? [APB 12, par. 5c (AC D40.105c)]	_____	_____	_____
3. Is the amount of capitalized interest disclosed? [SFAS 34, par. 21 (AC I67.118)]	_____	_____	_____
<b>H. Other Assets</b>			
1. Are overnight investments resulting from sales of commercial paper recorded as assets?	_____	_____	_____
2. For investments in common stock accounted for by the equity method, are appropriate disclosures made? [APB 18, par. 20 (AC I82.110)]	_____	_____	_____
3. Are investments in life insurance reported at amounts that can be realized as of the balance-sheet date? [TB 85-4, par. 2 (AC I50.508)]	_____	_____	_____
4. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired:			
a. Is the amortization period no greater than the estimated remaining life of long-term interest-bearing assets acquired? [SFAS 72, par. 4 (AC I60.131)]	_____	_____	_____
b. Is the interest method used as the amortization method? [SFAS 72, par. 5 (AC I60.133)]	_____	_____	_____
c. Are method and period of amortization disclosed? [APB 17, par. 30 (AC I60.111)]	_____	_____	_____
5. For repossessed assets acquired in liquidation of receivables, are borrowers' accounts credited for the unpaid loan balance or the fair value of the repossessed properties, whichever is lower?	_____	_____	_____
a. Are borrowers' accounts credited for proceeds from cancellation of insurance, rebates of unearned finance income, and amounts transferred from dealer reserves with any remaining deficiency charged to the allowance for losses?	_____	_____	_____
b. Is a gain recorded if the proceeds from the sale of repossessed properties exceed the unpaid loan balance and are not required to be refunded? [AAG, par. 2.31]	_____	_____	_____
6. For foreclosed assets held for sale:			
a. If the fair value of the asset, minus the estimated costs to sell, is less than the cost of the asset, is the deficiency recognized and disclosed as a valuation allowance?	_____	_____	_____
b. Are changes in the valuation allowance based upon fluctuations in the fair value less disposal costs charged or credited to income and disclosed, if material? [AAG, App. C (SOP 92-3, par. 12)]	_____	_____	_____
7. Are foreclosed assets held for the production of income reported and accounted for in the same way had they been acquired by other means? [AAG, App. C (SOP 92-3, par. 15)]	_____	_____	_____
8. If foreclosed assets originally classified as held-for-sale are to be held for the production of income, is the net effect reported in income from continuing operations for the period in which the decision to retain the asset had been made? [AAG, App. C (SOP 92-3, par. 16)]	_____	_____	_____
9. In the period of transition for the adoption of SOP 92-3, is the nature of change disclosed in the financial statements for the period in which the change is made? [AAG, App. C (SOP 92-3, par. 16)]	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. Are insurance policy acquisition costs deferred and amortized to income over the terms of the policies by the same method used to account for insurance premium income?	_____	_____	_____
a. Are deferred costs associated with payment of commissions and other intercompany items eliminated in consolidation? [AAG, par. 5.16]	_____	_____	_____
11. If the effect of discounting the recourse obligation amount is material, are the undiscounted amount of the recourse obligation and the interest rate used disclosed? [EITF 92-2]	_____	_____	_____
<b>I. Income Taxes</b>			
1. Are deferred tax assets and liabilities determined for each tax-paying component (an individual company or group of companies that is consolidated for tax purposes) in each tax jurisdiction presented separately? [SFAS 109, par. 17 (AC I27.116)]	_____	_____	_____
2. Are the components of the total of all deferred tax assets and the valuation allowance recognized in the statement of financial position disclosed? [SFAS 109, par. 43b—c (AC I27.142b—c)]	_____	_____	_____
3. Are the components of the total of all deferred tax liabilities recognized in the balance sheet disclosed? [SFAS 109, par. 43a (AC I27.142a)]	_____	_____	_____
4. Is the following information disclosed whenever a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes for any of the areas addressed by APB 23 (as amended by SFAS 109) or for deposits in statutory reserve funds by U.S. steamship enterprises:			
a. A description of the types of temporary differences for which a deferred tax liability is not recognized and the types of events that would cause those temporary differences to become taxable?	_____	_____	_____
b. The cumulative amount of each type of temporary differences?	_____	_____	_____
c. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable?	_____	_____	_____
d. The amount of the deferred tax liability for temporary differences other than those in c. above (i.e., undistributed domestic earnings, the bad debt reserve for tax purposes of a U.S. savings and loan association or other qualified thrift lender, the policyholders' surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise) that is not recognized in accordance with the provisions of paragraphs 31 and 32 of SFAS 109 (AC I27.130 and .131)? [SFAS 109, par. 44 (AC I27.143)]	_____	_____	_____
<b>J. Other Liabilities</b>			
1. Are estimated losses from loss contingencies accrued if both "probable" as explained in SFAS 5 (AC C59) and the amount can be reasonably estimated? [SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106—.107 and .124—.127)]	_____	_____	_____
2. Are liabilities appropriately accrued and reported for employees' compensation for future absences? [SFAS 43, par. 6 (AC C44.104)]	_____	_____	_____
3. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated? [SFAS 88, par. 15 (AC P16.185)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. For loans transferred with recourse that are not reported as sales, is the amount of proceeds from the transfer reported as a liability? [SFAS 77, par. 8 (AC R20.109)]	_____	_____	_____
5. Are "Dealer Reserves" (the unpaid portion of the finance charges) and "Dealer Holdbacks" classified as liabilities? [AAG, par. 1.10]	_____	_____	_____
6. Are unpaid claims for property insurance and that portion of level term insurance and credit accident and health insurance (where the finance company will not receive the proceeds of such claims) presented as liabilities rather than as a reduction of finance receivables? [AAG, par. 5.27]	_____	_____	_____
7. If an obligation for postemployment benefits is not accrued in accordance with SFAS No. 5 (AC C59) or 43 (AC C44) only because the amount cannot be reasonably estimated and the financial statements are for a fiscal beginning after December 15, 1993, is the fact of nonaccrual disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)]	_____	_____	_____
<b>K. Debt</b>			
1. Are the major components of debt disclosed on the face of the balance sheet or in the notes?	_____	_____	_____
a. Is there disclosure of the aggregate amount of maturities and sinking fund requirements for all long-term borrowings and redeemable preferred stock for each of the five years following the balance-sheet date? [SFAS 47, par. 10 (AC C32.105)]	_____	_____	_____
b. Is information disclosed on liquidation preferences, participation rights, and interest rates?	_____	_____	_____
c. Are the various types of subordination, bank borrowings, and commercial paper separately disclosed?	_____	_____	_____
d. Are the components of debt that matures in more than one year disclosed?	_____	_____	_____
e. Is the existence of bank lines of credit and their relevant terms and amounts disclosed? [AAG, par. 3.24]	_____	_____	_____
2. Is debt classified as subordinated and senior rather than as short-term and long-term? [AAG, par. 3.25]	_____	_____	_____
3. Are conversion features appropriately accounted for and disclosed? [APB 14, par. 12 (AC D10.103); APB 15, par. 19 (AC E09.110)]	_____	_____	_____
4. For a troubled debt restructuring occurring during the current period, do disclosures include:			
a. Description of the principal changes in terms, the major features of settlement or both?	_____	_____	_____
b. Aggregate gain on restructuring of payables and the related income tax effect?	_____	_____	_____
c. Aggregate net gain or loss on transfers of assets recognized during the period?	_____	_____	_____
5. For periods after a troubled debt restructuring, do disclosures include:			
a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?	_____	_____	_____
b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]	_____	_____	_____
6. Is debt considered to be extinguished for financial reporting purposes because:			
a. The debtor is legally released from being the primary obligor and it is probable that the debtor will not be required to make future payments with respect to the debt under any guarantee?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of a specific obligation and the possibility that the debtor will be required to make future payments with respect to that debt is remote? [SFAS 76, par. 3 (AC D14.102A)]	_____	_____	_____
7. If debt is considered to be extinguished in conformity with SFAS 76, paragraph 3c, does the disclosure include:			
a. A general description of the transaction?	_____	_____	_____
b. The amount of debt that is considered extinguished, as long as the debt remains outstanding? [SFAS 76, par. 6 (AC D14.108)]	_____	_____	_____
8. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount:			
a. Recognized currently in income? [APB 26, pars. 20—21 (AC D14.103—.104); TB 80-1, pars. 3—4 (AC D14.503—.504); SFAS 84, par. 5 (AC D14.101)]	_____	_____	_____
b. Identified as a separate or extraordinary item? [SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC D14.105)]	_____	_____	_____
9. Do disclosures for extinguishments of debt described in Step 7. above include:			
a. Description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources?	_____	_____	_____
b. Income tax effect in the period of extinguishment? [SFAS 4, par. 9 (AC D14.107)]	_____	_____	_____
10. If the company has nonrecourse debt resulting from a sale of property with the property used as collateral and the company obtains a loan from a bank on essentially the same terms as the note, is its liability on the bank loan not offset against its receivable on the note, and its interest expense on the bank loan not offset against interest income on the note? [EITF 84-11]	_____	_____	_____
11. If a debtor's old callable debt is exchanged for new noncallable debt and if the old callable debt is actually acquired by a third party with funds loaned by the debtor to the third party with an agreement to offset the respective receivables and obligations, has the debtor not offset the debt against the third-party receivable in the borrower's financial statements? [EITF 86-18]	_____	_____	_____
<b>L. Lessee Leases</b>			
1. For capital leases, do disclosures include:			
a. Gross amounts of assets recorded by major classes, as of the date of each balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(1))]	_____	_____	_____
b. Future minimum lease payments, as of the latest balance sheet presented, in the aggregate, and for each of the five succeeding fiscal years, with appropriate separate deductions for executory costs and imputed interest to reduce net minimum lease payments to present value? [SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(2))]	_____	_____	_____
c. Total of future minimum sublease rentals under noncancelable subleases, as of the date of the latest balance sheet presented? [SFAS 13, par. 16a (AC L10.112a(3))]	_____	_____	_____
d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a, as amended by SFAS 29, par. 12 (AC L10.112a(4))]	_____	_____	_____
e. Separate identification of:			
(1) Assets recorded under capital leases?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Accumulated amortization of capital leases?	_____	_____	_____
(3) Obligations under capital leases?	_____	_____	_____
(4) Amount of amortization of capital lease assets or the fact that the amortization of capital lease assets is included in depreciation expense? [SFAS 13, par. 13 (AC L10.112a(5))]	_____	_____	_____
2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:			
a. Future minimum rental payments required, as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?	_____	_____	_____
b. Total of future minimum rentals under noncancelable subleases, as of the date of the latest balance sheet presented? [SFAS 13, par. 16b (AC L10.112b)]	_____	_____	_____
3. For all operating leases, do disclosures include rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
4. Do disclosures include a general description of the lessee's leasing arrangements including, but not limited to:			
a. Basis for determination of contingent rentals?	_____	_____	_____
b. Terms of any renewal or purchase options or escalation clauses?	_____	_____	_____
c. Restrictive covenants? [SFAS 13, pars. 13, 16d and 29 (AC L10.112d and .119)]	_____	_____	_____
<b>M. Capital Stock</b>			
1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding (i.e., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices and pertinent dates, sinking fund requirements, or unusual voting rights)? [APB 15, par. 19 (AC E09.110)]	_____	_____	_____
3. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10 (AC C32.105)]	_____	_____	_____
4. Are liquidation preferences of preferred stock issued disclosed in the equity section of the balance sheet in the aggregate? [APB 10, par. 10 (AC C16.101)]	_____	_____	_____
5. For preferred stock, do disclosures include:			
a. The aggregate or per share amounts at which shares may be called or are subject to redemption?	_____	_____	_____
b. The aggregate and per share amounts of arrearages in cumulative preferred dividends? [APB 10, par. 11 and APB 15, par 50, fn. 16 (AC C16.102)]	_____	_____	_____
6. For stock option and stock purchase plans, do disclosures include:			
a. The number of shares under option?	_____	_____	_____
b. The option price?	_____	_____	_____
c. The number of shares as to which options are exercisable?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. For shares exercised, the number of shares exercised and option price? [APB 43, Ch. 13B, par. 15 (AC C47.123); FASBI 28 (AC C47.119—.122 and .138—.146); TB 82-2, pars. .10—.12 (AC C47.513—.515); FASBI 38 (AC C47.135A—.135E)]	_____	_____	_____
<b>N. Retained Earnings</b>			
1. Are significant restrictions on the use of retained earnings for payment of dividends disclosed? [SFAS 5, par. 18 (AC C59.120)]	_____	_____	_____
2. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [SFAS 5, par. 15 (AC C59.117)]	_____	_____	_____
3. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46, par. 2 (AC Q15.111)]	_____	_____	_____
<b>O. Other Stockholders' Equity Accounts</b> (Assumes the adoption of SFAS 115—See Appendix C if SFAS 115 has not been adopted)			
1. Are cumulative translation adjustments separately disclosed? [SFAS 52, par. 31 (AC F60.141)]	_____	_____	_____
2. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed? [TB 85-6, par. 3 (AC C23.501—.503)]	_____	_____	_____
3. If a company receives a note rather than cash as a contribution to its equity, is the note classified as a reduction of shareholders' equity unless (in the very limited circumstance) there is substantial evidence of ability and intent to pay within a reasonably short period of time? [EITF 85-1]	_____	_____	_____

## Income Statement

### A. Interest Income

1. For interest income from loans:			
a. Do the financial statements disclose interest and finance charges earned separately from other kinds of income, such as insurance premiums?	_____	_____	_____
(1) Does the summary of significant accounting policies disclose the method of income recognition used?	_____	_____	_____
(2) Are the policies for suspending and resuming accruals of income on delinquent loans and policies for charging off uncollectible loans disclosed, including the basis for making such decisions?	_____	_____	_____
(3) If the charge-off policy is based on a specific period, is that period disclosed? [AAG, par. 2.45]	_____	_____	_____
b. Is amortization of deferred loan origination, commitment, and other fees and costs recognized as an adjustment of yield, reported as interest income? [AAG, par. 2.40; SFAS 91, par. 22 (AC L20.121)]	_____	_____	_____
2. Is the interest (actuarial) method used to account for interest income?	_____	_____	_____
a. Is interest on fixed-rate installment loans measured and accrued over the lives of the loans to produce constant rates of interest (yields) when applied to the outstanding loan balance at any time in the lives of the loans?	_____	_____	_____
b. If other computational methods are used, do they clearly produce results that reasonably approximate the interest (actuarial) method? [AAG, par. 2.13]	_____	_____	_____
3. For interest income from investment securities:			



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Is the interest method used to record amortization and accretion? [AAG, par. 2.13]	_____	_____	_____
4. Are revenues from insurance provided to finance customers presented as part of revenues from the finance business?	_____	_____	_____
a. Alternately, if a net interest income presentation is used, are the revenues from captive insurance activities presented separately below net interest income? [AAG, par. 5.28]	_____	_____	_____
5. Are factoring commissions recognized in income over the periods in which service is rendered? [AAG, par. 2.23]	_____	_____	_____
6. Is insurance premium income recognized in accordance with Statement 60 (AC In6)?	_____	_____	_____
a. Are insurance policies issued in connection with consumer lending considered to represent short-duration contracts with the premiums recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided?	_____	_____	_____
b. Are level term credit life insurance premiums recognized as revenue on a straight-line basis?	_____	_____	_____
c. Are decreasing term credit life insurance premiums recognized as revenue using the interest method?	_____	_____	_____
d. Are credit accident and health insurance premiums recognized in income in reasonable relationship to anticipated claims (i.e., an amount that falls between the straight-line method and the insurance-in-force method)?	_____	_____	_____
e. Are property and liability insurance premiums recognized on a straight-line basis unless the amount of coverage declines on a predetermined schedule? [AAG, pars. 5.14 and 5.15]	_____	_____	_____
<b>B. Other Income</b> (Assumes the adoption of SFAS 115—See Appendix C if SFAS 115 has not been adopted)			
1. For investments in common stock accounted for by the equity method:			
a. Are intercompany profits and losses appropriately eliminated until realized by the investor through transactions with independent third parties? [APB 18, par. 19a (AC I82.109a)]	_____	_____	_____
b. Is the investor's share of earnings shown as a single amount except for investee extraordinary items and prior period adjustments that are material to the investor? [APB 18, pars. 19c and 19d (AC I82.109c and .109d)]	_____	_____	_____
c. Are income taxes on the investor's share of the investee's earnings appropriately accrued? [APB 24, pars. 7—10 (AC I42.114—.116 and .119)]	_____	_____	_____
2. For each period for which an earnings statement is presented, are the following disclosures made:			
a. The proceeds from sales of available-for-sale securities and gross realized gains and losses on those sales?	_____	_____	_____
b. The basis on which cost was determined in computing realized gain or loss, (i.e., specified identification, average cost, or other method used)?	_____	_____	_____
c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category?	_____	_____	_____
d. The change in net unrealized holding gain or loss on available-for-sale securities that has been included in the separate component of shareholders' equity during the period?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. The change in net unrealized holding gain or loss on trading securities that has been included in earnings during the period? [SFAS 115, par. 21 (AC I80.120)]	_____	_____	_____
3. For any sales of or transfers from securities classified as held-to-maturity, are the following disclosed for each period for which an earnings statement is presented:			
a. Amortized cost amount of the sold or transferred security?	_____	_____	_____
b. Related realized or unrealized gain or loss?	_____	_____	_____
c. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.114—.121)]	_____	_____	_____
4. Is the following disclosed with respect to purchased and originated credit card fees and costs:			
a. Accounting policy?	_____	_____	_____
b. Net amount capitalized at the balance-sheet date?	_____	_____	_____
c. Amortization period? [EITF 92-5]	_____	_____	_____
<b>C. Other Expenses</b>			
1. Salaries:			
a. If there is a compensatory stock issuance plan:			
(1) Is compensation expense accrued in the proper periods? [APB 25, pars. 12—15 (AC C47.112—.115); FASBI 38, pars. 2—6 (AC C47.135A—.135E)]	_____	_____	_____
(2) Are deferred income taxes recorded to recognize temporary differences between accrual of compensation expense and deduction for income tax purposes? [APB 25, pars. 16—18 (AC C47.116—.118); TB 82-2, pars. 8 and 13 (AC C47.511 and .516)]	_____	_____	_____
(3) Are disclosures adequate? [ARB 43, Ch. 13B, par. 15 (AC C47.123)]	_____	_____	_____
b. For deferred compensation agreements, are estimated amounts to be paid properly accrued? [APB 12, pars. 6—7 (AC C38.101—.102)]	_____	_____	_____
2. Is the cost of the pension plan(s) accounted for in conformity with SFAS 87, paragraphs 20—34, 39—53 and 77? <sup>5</sup> [SFAS 87, pars. 20—34, 39—53 and 77 (AC P16.114—.128, .133—.138 and .141—.149)]	_____	_____	_____
3. Is the provision for credit losses presented separately as an expense item in the income statement? [AAG, par. 2.41]	_____	_____	_____
4. Is depreciation expense for the period(s) disclosed accompanied by a general description of the method(s) used to compute depreciation for the major classes of depreciable assets? [APB 12, par. 5 (AC D40.105)]	_____	_____	_____
5. Operating Leases:			
a. Is rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals disclosed? [SFAS 13, par. 16c (AC L10.112c)]	_____	_____	_____
6. Is the discount or premium on debt being amortized to interest expense over the life of the debt, using the interest method? [APB 12, pars. 16—17 (AC I69.108); APB 21, pars. 15—16 (AC I69.108—.109)]	_____	_____	_____

<sup>5</sup> Accounting for defined contribution plans and for multiemployer plans is generally the same as current practice. The pension rules apply primarily to companies offering defined benefit pension plans.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
7. Is interest income on overnight investments resulting from sales of commercial paper combined with interest expense in the income statement and not shown separately?	_____	_____	_____
a. If material, is such interest income disclosed in a note to the financial statements? [AAG, par. 3.23]	_____	_____	_____
8. Are insurance commissions received from independent insurers deferred and systematically amortized to income over the life of the related insurance contract?	_____	_____	_____
a. Is the method of amortization consistent with the method of premium income recognition for that type of policy?	_____	_____	_____
b. Is the income from experience-related or retrospective commission arrangements accrued over the insurance risk period?	_____	_____	_____
c. Are commissions paid to a finance company by an insurance subsidiary eliminated in consolidation? [AAG, pars. 5.21—.23]	_____	_____	_____
9. Are the financial statements of insurance subsidiaries prepared for submission to regulatory authorities adjusted to conform to GAAP before they are consolidated with the financial statements of the parent company? [AAG, par. 5.20]	_____	_____	_____
<b>D. Income Taxes</b>			
1. Are the types of significant temporary differences and carryforwards disclosed? [SFAS 109, par. 43 (AC I27.142)]	_____	_____	_____
2. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed in the financial statements or notes:			
a. Current tax expense or benefit?	_____	_____	_____
b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?	_____	_____	_____
c. Investment tax credits?	_____	_____	_____
d. Government grants (to the extent recognized as a reduction of income tax expense)?	_____	_____	_____
e. The benefits of operating loss carryforwards?	_____	_____	_____
f. Tax expense that results from allocating certain benefits either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity?	_____	_____	_____
g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise?	_____	_____	_____
h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years? [SFAS 109, pars. 45a—b (AC I27.144a—h)]	_____	_____	_____
i. Amounts and expiration dates of operating losses and tax carryforwards for tax purposes? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
j. Any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Is the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35—39 of SFAS 109 (AC I27.134—.138)) disclosed for each year for which those items are presented? [SFAS 109, par. 46 (AC I27.145)]	_____	_____	_____
4. Is the nature of significant reconciling items disclosed? [SFAS 109, par. 47 (AC I27.146)]	_____	_____	_____
5. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed? [SFAS 109, par. 48 (AC I27.147)]	_____	_____	_____
6. If the company is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:			
a. The aggregate amount of current and deferred tax expense for each statement of income presented and the amount of any tax-related balances due to or from affiliates, as of the date of each balance sheet presented?	_____	_____	_____
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in a. above are presented? [SFAS 109, pars. 49 a—b (AC I27.148 a—b)]	_____	_____	_____
7. Is the effect of initially applying SFAS 109 reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle (APB 20, paragraph 20), except for initially recognized tax benefits of the type required by SFAS 109 to be excluded from comprehensive income? [SFAS 109, par. 51]	_____	_____	_____
8. When initially presented, are the financial statements for the year SFAS 109 is first adopted disclosed:			
a. The effect, if any, of adopting SFAS 109 on pretax income from continuing operations (e.g., the effect of adjustments for prior purchase business combinations and for regulated enterprises) for the year of adoption if restated financial statements for the prior year are not presented?	_____	_____	_____
b. The effect of any restatement on income from continuing operations, income before extraordinary items, and net income (and on related per share amounts) for each year for which restated financial statements are presented? [SFAS 109, pars. 52a—b]	_____	_____	_____
<b>E. Discontinued Operations</b>			
1. Are operations of a segment that has been discontinued or is the subject of a formal plan for disposition:			
a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items? [APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106 and .108—.109)]	_____	_____	_____
b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations? [APB 30, par. 8 (AC I13.105)]	_____	_____	_____
2. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items? [APB 30, pars. 8 and 13—18 (AC I13.101—.103, .105—.106 and .108—.109)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. If the company sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment recognized in measuring the gain or loss on the sale? [FASBI 37, par. 2 (AC F60.120)]	_____	_____	_____
4. For the period encompassing the measurement date, do notes to financial statements disclose:			
a. Identity of the segment discontinued?	_____	_____	_____
b. Expected disposal date, if known?	_____	_____	_____
c. Expected manner of disposal?	_____	_____	_____
d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?	_____	_____	_____
e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance-sheet date? [APB 30, par. 18 (AC I13.108—.109)]	_____	_____	_____
5. For periods after measurement date and including the period of disposal, do notes to financial statements disclose the information required? [APB 30, par. 18 (AC I13.108—.109)]	_____	_____	_____
6. If a company has accounted for the discontinuance of a segment in accordance with APB 30 and subsequently decides to retain the segment, is any impairment writedown of the individual assets classified in continuing operations? [EITF 90-16]	_____	_____	_____
7. If the company plans to dispose of two segments of a business, and one has a net gain and the other a loss, is that gain shown net? [EITF 85-36]	_____	_____	_____
<b>F. Extraordinary Items</b>			
1. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, pars. 10—12 (AC I17.102—.103)]	_____	_____	_____
2. Are descriptive captions and amounts (including applicable income taxes) presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
3. Do disclosures include descriptions of extraordinary events or transactions and the principal items entering into determination of extraordinary gains or losses? [APB 30, par. 11 (AC I17.102)]	_____	_____	_____
4. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore not meeting criteria for extraordinary items):			
a. Reported as a separate component of income from continuing operations?	_____	_____	_____
b. Accompanied by disclosure of the nature and financial effects of each event? [APB 30, par. 26 (AC I22.101)]	_____	_____	_____
5. For nonpublic companies, if there is a restructuring charge, is it reflected using the most meaningful income statement presentation within the framework of APB 30? [EITF 87-4]	_____	_____	_____
6. For an existing property with an asbestos problem, are the costs incurred to treat the problem, if charged to expense, not classified as an extraordinary item? [EITF 89-13]	_____	_____	_____
<b>G. Other</b>			
1. Are the following excluded from determination of net income or results of operations under all circumstances:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Adjustments or charges or credits resulting from transactions in the company's own capital stock?	_____	_____	_____
b. Transfers to and from accounts properly designated as appropriated retained earnings?	_____	_____	_____
c. Adjustments made pursuant to a quasi-reorganization? [APB 9, par. 28 (AC C08.101)]	_____	_____	_____

### Statement of Changes in Stockholders' Equity

A. Are changes in separate component accounts of stockholders' equity disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
B. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)]	_____	_____	_____
C. Are prior period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed? [APB 9, par. 26 (AC A35.107)]	_____	_____	_____
D. For a correction of an error, are the following disclosed in the period in which the error was discovered and corrected:			
1. Nature of the error in previously issued financial statements?	_____	_____	_____
2. Effect of its correction on income before extraordinary items, net income, and related per share amounts (if applicable)? [APB 20, par. 37 (AC A35.105)]	_____	_____	_____

### Statement of Cash Flows

A. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of income is presented? [SFAS 95, par. 3 (AC C25.101)]	_____	_____	_____
B. Are cash receipts and payments from operating activities shown separately on the statement of cash flows? [SFAS 95, pars. 27—28 (AC C25.125—.126)]	_____	_____	_____
1. Are cash receipts and payments resulting from purchases and sales of securities and other assets acquired for resale and carried at market value in a trading account classified as operating cash flows? [SFAS 102, par. 8 (AC C25.122A)]	_____	_____	_____
2. Are cash flows from purchases, sales, and maturities of available-for-sale securities classified as cash flows from investing activities? [SFAS 102, par. 8 (AC C25.122A), as amended by SFAS 115]	_____	_____	_____
3. Are cash receipts and payments resulting from acquisitions and sales of loans if those loans are acquired specifically for resale and are carried at market value or the lower of cost or market classified as operating cash flows? [SFAS 102, par. 9 (AC C25.122B)]	_____	_____	_____
C. Are cash receipts and payments for the following transactions classified as cash flows from operating activities:			
1. Interest received on loans?	_____	_____	_____
2. Insurance proceeds except those directly related to investing or financing activities?	_____	_____	_____
3. Interest paid to creditors?	_____	_____	_____
4. Payments to employees?	_____	_____	_____
5. Payments to governments for taxes, duties, fines, and other fees or penalties?	_____	_____	_____
6. Payments to settle lawsuits?	_____	_____	_____
7. Contributions to charities? [SFAS 95, pars. 20—23 (AC C25.120—.121)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
D. Are cash receipts and payments from investing activities shown separately on statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
E. Are cash receipts and payments for the following transactions classified as cash flows from investing activities:			
1. Receipts from collections or sales of loans?	_____	_____	_____
2. Receipts from sales of property or investments?	_____	_____	_____
3. Loans to other entities?	_____	_____	_____
4. Payments to acquire property or investments? [SFAS 95, pars. 16—17 (AC C25.114—.115)]	_____	_____	_____
F. Are cash receipts and payments from financing activities shown separately on the statement of cash flows? [SFAS 95, par. 31 (AC C25.129)]	_____	_____	_____
G. Are cash receipts and payments for the following transactions classified as cash flows from financing activities:			
1. Proceeds from issuing debt or capital stock?	_____	_____	_____
2. Repayment of amounts borrowed?	_____	_____	_____
3. Dividend payments to shareholders?	_____	_____	_____
4. Acquisition of treasury stock? [SFAS 95, pars. 19—20 (AC C25.117—.118)]	_____	_____	_____
H. If applicable, is the effect of exchange rate changes on cash balances held in foreign currencies shown separately on statement of cash flows? [SFAS 95, par. 25 (AC C25.123)]	_____	_____	_____
I. Does the statement of cash flows explain the change in cash and cash equivalents during the period? [SFAS 95, par. 7 (AC C25.105)]	_____	_____	_____
J. Is policy for defining what is a cash equivalent disclosed? [SFAS 95, par. 10 (AC C25.108)]	_____	_____	_____
K. Is a reconciliation of net income to net cash flow from operating activities presented either within the statement of cash flows or in a separate schedule? [SFAS 95, pars. 29—30 (AC C25.127—.128)]	_____	_____	_____
L. Are noncash investing and financing activities (i.e., converting debt to equity) summarized in a separate schedule? [SFAS 95, par. 32 (AC C25.134)]	_____	_____	_____
M. If the indirect method is used, is the amount of interest paid (net of amounts capitalized) and income taxes paid during the period(s) disclosed? [SFAS 95, par. 29 (AC C25.127)]	_____	_____	_____

## Exhibit A—Postretirement Health Care Benefits [SFAS 81]

The effective date of SFAS 106 is for fiscal years beginning after December 15, 1992, except for plans outside the United States and for defined benefit plans of employers that (a) are nonpublic entities and (b) sponsor defined benefit postretirement plan(s) with no more than 500 plan participants in the aggregate, in which case the effective date is for fiscal years beginning after December 15, 1994. Earlier application is encouraged. Until such time, the following disclosures remain in effect:

### A. Postretirement Health Care and Life Insurance Benefits

#### 1. Do disclosures include:

- |   |       |       |       |
|---|-------|-------|-------|
| a. Description of benefits and employee groups covered?   | _____ | _____ | _____ |
| b. Description of accounting and funding policies?  | _____ | _____ | _____ |
| c. Cost of benefits recognized during the period?   | _____ | _____ | _____ |
| d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented?<br>[SFAS 81, par. 6 (AC P50.102)] | _____ | _____ | _____ |

## Exhibit B—Impairment of Loans Receivable

The effective date of SFAS 114 is for fiscal years beginning after December 15, 1994. Earlier application is encouraged. Until such time, the following disclosures remain in effect:

### A. Impairment of Loans Receivable

#### 1. For receivables involved in troubled debt restructurings, are the following disclosed by major category of loans as of the date of each balance sheet presented:

- |   |       |       |       |
|---|-------|-------|-------|
| a. Aggregate recorded investment?   | _____ | _____ | _____ |
| b. Gross interest income that would have been recorded if loans had been current per their original terms and had been outstanding throughout the period or since origination?        | _____ | _____ | _____ |
| c. Amount of interest income included in net income?  | _____ | _____ | _____ |
| d. Amounts of any commitment to lend additional funds to debtors owning restructured troubled loans?<br>[SFAS 15, pars. 40—41 (AC D22.136—.137); TBs 79-6 and 79-7 (AC D22.501—.505)] | _____ | _____ | _____ |

## Exhibit C—Various

The effective date of SFAS 115 is for fiscal years beginning after December 15, 1993. It is to be initially applied as of the beginning of a fiscal year and cannot be applied retroactively to prior years' financial statements. An entity may elect to apply this statement as of the end of an earlier fiscal year for which annual financial statements have not previously been issued. Until such applications, the following disclosures remain in effect:

### A. Consolidations

- |   |       |       |       |
|---|-------|-------|-------|
| 1. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed?<br>[SFAS 12, par. 20 (AC I89.114)] | _____ | _____ | _____ |
|---|-------|-------|-------|

### B. Investment Securities

- |   |       |       |       |
|---|-------|-------|-------|
| 1. Are appropriate disclosures made for marketable equity securities?<br>[SFAS 12, par. 12 (AC I89.106)]  | _____ | _____ | _____ |
| 2. For each balance sheet presented, are the amortized cost, estimated market values, gross unrealized gains, and gross unrealized losses disclosed for each pertinent category of investments of debt securities?<br>[AAG, App. A (SOP 90-11, par. 9)] | _____ | _____ | _____ |



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. For the most recent balance sheet, is disclosure made of the amortized cost and estimated market values of debt securities due:			
a. In one year or less?	_____	_____	_____
b. After one year through five years?	_____	_____	_____
c. After five years through ten years?	_____	_____	_____
d. After ten years? [AAG, App. A (SOP 90-11, par. 9)]	_____	_____	_____
4. For each period for which results of operations are presented, are the proceeds from sales of debt securities and gross realized gains and gross realized losses on such sales disclosed? [AAG, App. A (SOP 90-11, par. 9)]	_____	_____	_____
<b>C. Other Stockholders' Equity Accounts</b>			
1. Is the valuation allowance for marketable equity securities separately disclosed? [SFAS 12, par. 11 (AC I89.104)]	_____	_____	_____
<b>D. Other Income</b>			
1. For marketable equity securities, are the following disclosed for each period for which an income statement is presented:			
a. Net realized gain or loss included in determination of net income?	_____	_____	_____
b. For companies with certain specialized accounting practices, the change in net unrealized gain or loss?	_____	_____	_____
c. Basis on which cost was determined in computing realized gain or loss?	_____	_____	_____
d. The change in valuation allowance(s) during the period? [SFAS 12, par. 12c (AC I89.106b—c)]	_____	_____	_____

# Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

## .02 Explanation of References:

SAS = AICPA Statement on Auditing Standards

AU = Reference to section number in *AICPA Professional Standards* (vol. 1)

AR = Reference to section number in *AICPA Professional Standards* (vol. 2)

AAG = AICPA Audit and Accounting Guide, *Audits of Finance Companies* (with conforming changes as of May 1, 1993)

## .03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the auditor's report include appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
b. Date (or dual dates) of the report? [SAS 1, sec. 530 (AU 530); SAS 26, pars. 15—17(AU 504.15—.17); SAS 58, par. 46 (AU 508.46)]	_____	_____	_____
c. A title that includes the word "independent"? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
2. If the auditor is not independent, is the appropriate disclaimer expressed regardless of the extent of services provided? [SAS 26, par. 5 (AU 504.09)]	_____	_____	_____
a. For a public entity? [SAS 26, pars. 8—10 (AU 504.08—.10)]	_____	_____	_____
3. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
4. Does the auditor's report include appropriate language for the following:			
a. The auditor's opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)]	_____	_____	_____
b. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading financial statement? [SAS 58, pars. 14—15 (AU 508.14—.15)]	_____	_____	_____
c. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation as of the auditor's report? [SAS 58, pars. 16—33 (AU 508.16—.33)]	_____	_____	_____

**Note:** Consult the Topical Index to the *AICPA Professional Standards* under "Uncertainties" for additional references to specific types of uncertainties.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. There is substantial doubt as to the company's ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase "substantial doubt about its (the company's) ability to continue as a going concern"? [SAS 64, par. 1 (AU 341.12—.13)]	_____	_____	_____
e. There is a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
f. Selected quarterly financial data required by the SEC is omitted or is not reviewed? [SAS 36, par. 29 (AU 722.29)]	_____	_____	_____
g. Other information in the document containing the audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
h. The auditor decides to emphasize a matter in the report? [SAS 58, par. 37 (AU 508.37) Interpretation 38 of SAS 1, sec. 410 (AU 9410.17); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
i. Comparative financial statements are presented? [SAS 58, pars. 74—75 (AU 508.74—.75)]	_____	_____	_____
5. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, pars. 47—48 (AU 508.47—.48)]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14—17 (AU 504.14—.17)]	_____	_____	_____
6. If the prior period financial statements audited by a predecessor auditor are restated, does the introductory paragraph indicate that the predecessor auditor reported on the prior period financial statements before restatement? [SAS 64, par. 2 (AU 508.83)]	_____	_____	_____
7. If the successor auditor is engaged to audit and applies sufficient procedures to satisfy himself or herself as to the appropriateness of the restatement adjustments, does he or she report on it in accordance with SAS 64, par.2? [SAS 64, par. 2 (AU 508.83)]	_____	_____	_____
8. If, following a pooling-of-interest transaction, an auditor is engaged to report on restated financial statements for one or more prior years when other auditors audited one or more of the entities included in such financial statements, does he or she include explanatory language in accordance with SAS 64, paragraph 3? [SAS 64, par. 3 (AU 543.16)]	_____	_____	_____
9. Is a qualified opinion or adverse opinion expressed if there is a lack of conformity with generally accepted accounting principles (including inadequate disclosure)? [SAS 58, pars. 49—66; SAS 32, par. 3 (AU 431.03)]	_____	_____	_____
<b>Note:</b> Consult the Topical Index to the <i>AICPA Professional Standards</i> under "Departure from Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.			
10. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed and is the reporting language appropriately modified? [SAS 58, pars. 39, 40, 51, 68 and 71 (AU 508.39, .40, .51, .68 and .71)]	_____	_____	_____
11. Does the auditor's report include modification, if applicable, for the following:			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Conditions that precluded application of necessary auditing procedures to long-term investments? [SAS 58, par. 42 (AU 508.42)]	_____	_____	_____
b. Regulated companies? [SAS 1, sec. 544.02—.04 (AU 544.02—.04); SAS 62, pars. 2—8 (AU 623.02—.08)]	_____	_____	_____
c. Inadequate disclosure? [SAS 58, pars. 55—58 (AU 508.55—.58)]	_____	_____	_____
d. Client representations about related-party transactions? [SAS 45, par. 2 (AU 334.12)]	_____	_____	_____
e. Client's refusal to provide written representations? [SAS 19, par. 11 (AU 333.11)]	_____	_____	_____
f. Limitations on scope of lawyer's response? [SAS 12, pars. 12—14 (AU 337.12—.14)]	_____	_____	_____
g. Unresolved matters involving specialists? [SAS 11, par. 9 (AU 336.09)]	_____	_____	_____
h. Scope limitation concerning errors or irregularities? [SAS 53, pars. 26—27 (AU 316.26—.27)]	_____	_____	_____
i. Illegal acts by clients? [SAS 54 (AU 317)]	_____	_____	_____
j. Segment information? [SAS 21 (AU 435)]	_____	_____	_____
k. Company's continued existence? [SAS 59, pars. 12—16 (AU 341.12—.16)]	_____	_____	_____
l. Material misstatement of the financial statements? [SAS 47, par. 31 (AU 312.31)]	_____	_____	_____
m. Financial statements issued before the effective date of a Statement of Financial Accounting Standards when disclosure is not made of the effect of a restatement which will be required in the future as a result of the FASB Statement? [Interpretation 3 of SAS 1, sec. 410 (AU 9410.13—.15)]	_____	_____	_____
12. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document:			
a. Is there a clear distinction between the client's representation and auditor's representations? [SAS 29, par. 20 (AU 551.20)]	_____	_____	_____
b. Does the auditor's report on the accompanying information:			
(1) State that the audit is made for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
(2) Specifically identify the accompanying information?	_____	_____	_____
(3) State that the accompanying information is presented for purposes of additional analysis and is not part of the basic financial statements?	_____	_____	_____
(4) State whether the additional information is subjected to the auditing procedures applied in auditing the basic financial statements and whether the appropriate expression or disclaimer of opinion is included? [SAS 29, pars. 6—11 (AU 551.06—.11)]	_____	_____	_____
13. If the client is subject to FASB requirements to include certain supplementary information in documents containing audited financial statements, is the auditor's report been appropriately modified if:			
a. Required supplementary information is omitted?	_____	_____	_____
b. Measurement or presentation of the supplementary information departs materially from guidelines prescribed by the FASB?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. The auditor is unable to complete the procedures prescribed by SAS 52? [SAS 52, par. 8 (AU 558.08)]	_____	_____	_____
14. Does the report conform to SSAE 2 if reporting is on agreed-upon procedures applied to part of a company's existing or proposed internal control structure when management does not present a written assertion? [SSAE 2, par. 9 (AT 400.09)]	_____	_____	_____
15. If a report is issued on the effectiveness of the company's internal control structure, is it not stated in the report that no reportable conditions were noted? [SSAE 2, par. 45 (AT 400.46)]	_____	_____	_____
16. Does the report conform to SSAE 2 if management presents its assertion in a separate report that will accompany the practitioner's report on the effectiveness of the company's internal control structure? [SSAE 2, par. 50 (AT 400.51)]	_____	_____	_____
17. If management does not present a written assertion that accompanies the practitioner's report, is the report appropriately modified? [SSAE 2, pars. 53—54 (AT 400.52)]	_____	_____	_____
18. Is the report properly modified if any conditions exist in accordance with SSAE 2, paragraph 55? [SSAE 2, pars. 55—79 (AT 400.52—.82)]	_____	_____	_____

# ***Illustrative Financial Statements***

.01 The following report and set of financial statements illustrate one form of currently acceptable practice and, as indicated, do not include all disclosures required under generally accepted accounting principles. Other forms of financial statements are acceptable. More or less detail should appear either in the financial statements or in the notes, depending on the circumstances.

.02 The banking industry has adopted an income statement format that emphasizes presentation of net interest income. Because of the similarity between many banking activities and finance company activities, the AICPA Finance Companies Guide Special Committee believes that such a presentation is of increasing relevance for the finance industry. Therefore, the illustrative financial statements in this section include two alternative income statement formats, the first of which emphasizes a net interest income presentation.

.03 Nevertheless, certain factors may limit the usefulness of the net interest income presentation. An income statement that does not emphasize net interest income may be more appropriate for companies that engage primarily or solely in factoring operations or that otherwise derive a substantial portion of their income from commissions for services rather than from interest earned on loans. Additionally, the scope of what is to be included in net interest income needs to be considered. For example, as not done in the illustrative financial statements, a finance company may include credit insurance premiums and insurance claims expenses on affiliated credit insurance business in the display of net interest income to recognize the integral nature of lending and credit insurance activities. In addition, all or a portion of investment income may be included in the display of net interest income.

.04 FASB Statement No. 95, *Statement of Cash Flows*, requires a statement of cash flows as part of a full set of financial statements for all business enterprises in place of a statement of changes in financial position.

.05 Both the direct and indirect methods of presenting a statement of cash flows are illustrated in this section.

.06 FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, requires that impaired loans within the scope of this statement be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

.07 SFAS No. 115 has not been implemented in these financial statements.

## Independent Auditor's Report

To the Board of Directors and Stockholders  
XYZ Finance Corporation  
Anytown, U.S.A.

We have audited the accompanying consolidated balance sheets of XYZ Finance Corporation and subsidiaries as of December 31, 19X8 and 19X7, and the related consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XYZ Finance Corporation and subsidiaries at December 31, 19X8 and 19X7, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]

Office Town, U.S.A.  
January 15, 19X9

# XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

.07

## Balance Sheets

December 31, 19X8 and 19X7

(in thousands except share and per share amounts)

	19X8	19X7
<b>Assets</b>		
Finance receivables, net .....	\$333,649	\$272,166
Investments in securities .....	32,760	30,838
Cash .....	6,015	4,907
Property and equipment .....	4,689	3,830
Other .....	11,628	9,577
Total assets .....	<u>\$388,741</u>	<u>\$321,318</u>
<b>Liabilities</b>		
Senior debt .....	\$163,064	\$113,723
Senior subordinated debt .....	84,204	74,572
Junior subordinated debt .....	31,400	30,500
Accounts payable and accrued liabilities .....	15,727	13,866
Credit balances of factoring clients .....	4,120	3,112
Deferred income taxes .....	3,972	3,469
Total liabilities .....	<u>302,487</u>	<u>239,242</u>
<b>Shareholders' Equity</b>		
Common stock, \$1 par value; 4,269,000 shares authorized, issued, and outstanding .....	4,269	4,269
Additional paid-in capital .....	18,945	18,945
Net unrealized depreciation of marketable equity securities .....	(626)	(278)
Retained earnings .....	63,666	59,140
Total shareholders' equity .....	<u>86,254</u>	<u>82,076</u>
Total liabilities and shareholders' equity .....	<u>\$388,741</u>	<u>\$321,318</u>

The accompanying notes are an integral part of these financial statements.



# XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

.08

## Statements of Income and Retained Earnings: Format 1

Years Ended December 31, 19X8 and 19X7

(in thousands except per share amounts)

	19X8	19X7
Interest income		
Interest and fee income . . . . .	\$55,510	\$47,302
Interest expense . . . . .	18,825	16,283
Interest margin . . . . .	36,685	31,019
Provision for credit losses . . . . .	4,284	3,623
Interest margin after provision for credit losses . . . . .	32,401	27,396
Insurance premiums and other income . . . . .	13,040	11,650
Interest margin after provisions for credit losses and other revenues . . . . .	45,441	39,046
Other expenses		
Salaries and fringe benefits . . . . .	10,546	8,987
Other operating expenses . . . . .	13,227	11,565
Total operating expenses . . . . .	23,773	20,552
Policyholders' benefits . . . . .	6,644	5,600
Total operating expenses and policyholders' benefits . . . . .	30,417	26,152
Income before income taxes . . . . .	15,024	12,894
Income taxes . . . . .	7,211	6,189
Net income . . . . .	7,813	6,705
Retained earnings, beginning of year . . . . .	59,140	55,551
Dividends . . . . .	(3,287)	(3,116)
Retained earnings, end of year . . . . .	\$63,666	\$59,140
Earnings per share . . . . .	\$ 1.83	\$ 1.57
Dividends per share . . . . .	\$ 0.77	\$ 0.73

The accompanying notes are an integral part of these financial statements.

# XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

.09

## Statements of Income and Retained Earnings: Format 2

Years Ended December 31, 19X8 and 19X7

(in thousands except per share amounts)

	19X8	19X7
Revenues		
Interest and fee income . . . . .	\$55,510	\$47,302
Insurance premiums and other income . . . . .	13,040	11,650
Total revenues . . . . .	68,550	58,952
Expenses		
Interest expense . . . . .	18,825	16,283
Provision for credit losses . . . . .	4,284	3,623
Salaries and fringe benefits . . . . .	10,546	8,987
Other operating expenses . . . . .	13,227	11,565
Total before policyholders' benefits . . . . .	46,882	40,858
Policyholders' benefits . . . . .	6,644	5,600
Total expenses . . . . .	53,526	46,058
Income before income taxes . . . . .	15,024	12,894
Income taxes . . . . .	7,211	6,189
Net income . . . . .	7,813	6,705
Retained earnings, beginning of year . . . . .	59,140	55,551
Dividends . . . . .	(3,287)	(3,116)
Retained earnings, end of year . . . . .	\$63,666	\$59,140
Earnings per share . . . . .	\$ 1.83	\$ 1.57
Dividends per share . . . . .	\$ 0.77	\$ 0.73

The accompanying notes are an integral part of these financial statements.

# XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

.10

## Statements of Cash Flows (Direct Method)

Years Ended December 31, 19X8 and 19X7

	(in thousands)	
	19X8	19X7
<b>Cash flows from operating activities:</b>		
Interest and fees received .....	\$ 54,698	\$ 46,589
Interest paid .....	(18,275)	(15,897)
Cash payments for operating expenses .....	(21,912)	(18,686)
Income taxes paid .....	(5,242)	(4,565)
Insurance premiums received .....	12,790	11,498
Other .....	(2,611)	(1,937)
Net cash provided by operating activities .....	19,448	17,002
<b>Cash flows from investing activities:</b>		
Loans originated or purchased * .....	(190,304)	(136,571)
Loans repaid or sold * .....	118,705	83,750
Net investment in commercial paper .....	(346)	(555)
Securities purchased .....	(19,243)	(17,512)
Securities sold or matured * .....	17,471	16,639
Capital expenditures .....	(1,409)	(1,656)
Proceeds from sale of property and equipment .....	200	643
Net cash used in investing activities .....	(74,926)	(55,262)
<b>Cash flows from financing activities:</b>		
Net borrowings of commercial paper .....	16,939	10,215
Proceeds from issuance of other debt .....	71,000	50,000
Repayment of other debt .....	(28,066)	(18,215)
Proceeds from issuance of common stock .....	—	955
Dividends paid .....	(3,287)	(3,116)
Net cash provided by financing activities .....	56,586	39,839
Net increase in cash .....	1,108	1,579
Cash, beginning of year .....	4,907	3,328
Cash, end of year .....	\$ 6,015	\$ 4,907
<b>Reconciliation of net income to net cash provided by operating activities:</b>		
Net income .....	\$ 7,813	\$ 6,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses on finance receivables .....	4,284	3,623
Policyholders' benefits .....	6,644	5,600
Depreciation .....	350	303
Deferred income taxes .....	503	473
Accounts payable and accrued liabilities .....	1,861	1,530
Accrued interest receivable .....	(812)	(713)
Gain on sale of securities .....	(152)	(183)
Other .....	(1,043)	(336)
Net cash provided by operating activities .....	\$ 19,448	\$ 17,002

The accompanying notes are an integral part of these financial statements.

\* If the amounts are significant, this caption may be separated into two line items.

# XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

.11

## Statements of Cash Flows (Indirect Method)

Years Ended December 31, 19X8 and 19X7

(in thousands)

	<u>19X8</u>	<u>19X7</u>
Cash flows from operating activities:		
Net income . . . . .	\$ 7,813	\$ 6,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses on finance receivables . . . . .	4,284	3,623
Policyholders' benefits . . . . .	6,644	5,600
Depreciation . . . . .	350	303
Deferred income taxes . . . . .	503	473
Accounts payable and accrued liabilities . . . . .	1,861	1,530
Accrued interest receivable . . . . .	(812)	(713)
Gain on sale of securities . . . . .	(152)	(183)
Other . . . . .	(1,043)	(336)
Net cash provided by operating activities . . . . .	<u>19,448</u>	<u>17,002</u>
Cash flows from investing activities:		
Loans originated or purchased * . . . . .	(190,304)	(136,571)
Loans repaid or sold * . . . . .	118,705	83,750
Net investment in commercial paper . . . . .	(346)	(555)
Securities purchased . . . . .	(19,243)	(17,512)
Securities sold or matured * . . . . .	17,471	16,639
Capital expenditures . . . . .	(1,409)	(1,656)
Proceeds from sale of property and equipment . . . . .	200	643
Net cash used in investing activities . . . . .	<u>(74,926)</u>	<u>(55,262)</u>
Cash flows from financing activities:		
Net borrowings of commercial paper . . . . .	16,939	10,215
Proceeds from issuance of other debt . . . . .	71,000	50,000
Repayment of other debt . . . . .	(28,066)	(18,215)
Proceeds from issuance of common stock . . . . .	—	955
Dividends paid . . . . .	(3,287)	(3,116)
Net cash provided by financing activities . . . . .	<u>56,586</u>	<u>39,839</u>
Net increase in cash . . . . .	1,108	1,579
Cash, beginning of year . . . . .	4,907	3,328
Cash, end of year . . . . .	<u>\$ 6,015</u>	<u>\$ 4,907</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for:		
Interest . . . . .	\$ 18,275	\$ 15,897
Income taxes . . . . .	\$ 5,242	\$ 4,565

The accompanying notes are an integral part of these financial statements.

\* If the amounts are significant, this caption may be separated into two line items.

## XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

.12

### Notes to Financial Statements

#### A. Summary of Significant Accounting Policies

##### Basis of Consolidation

The consolidated financial statements include the accounts of XYZ Finance Corporation (the Company) and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

##### Income Recognition

Interest income from finance receivables is recognized using the interest (actuarial) method. Accrual of interest income on finance receivables is suspended when a loan is contractually delinquent for ninety days or more. The accrual is resumed when the loan becomes contractually current, and past-due interest income is recognized at that time. In addition, a detailed review of commercial loans will cause earlier suspension if collection is doubtful. Premiums and commissions for credit life insurance are recognized as revenue using the interest method. Premiums and commissions for credit accident and health insurance are recognized over the terms of the contracts based on the mean of the straight-line and interest methods.

##### Credit Losses

Provisions for credit losses are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover the losses of principal and interest in the existing portfolio. The Company's charge-off policy is based on a loan-by-loan review for all receivables except consumer loans and factored receivables, which are charged off when they are 180 days and 90 days contractually past due, respectively.

##### Loan Origination Fees and Costs

Fees received and direct costs incurred for the origination of loans are deferred and amortized to interest income over the contractual lives of the loans using the interest method. Unamortized amounts are recognized in income at the time that loans are sold or paid in full.

##### Investments

Investments in marketable equity securities are carried at lower of aggregate market value and cost. Investments in bonds and notes are carried at amortized cost. The amount by which the aggregate cost of investments in marketable equity securities exceeds aggregate market value is reported as a deduction from equity. Net realized gains or losses resulting from sales of investments or from declines in market values of investments that are other than temporary are included in income.

#### B. Finance Receivables and Allowance for Credit Losses

Finance receivables as of December 31 consisted of the following (in thousands of dollars):

	19X8	19X7
Consumer		
Real estate secured .....	\$131,961	\$104,078
Other .....	119,135	97,857
Accrued interest .....	3,175	2,550
	<u>254,271</u>	<u>204,485</u>
Commercial		
Accounts receivable loans .....	32,002	27,440
Factored accounts		
Receivables .....	21,404	18,594
Inventory loans to clients .....	2,965	2,876
Overadvances to clients .....	2,947	2,260

	19X8	19X7
Floor plan loans .....	5,441	5,763
Other .....	29,962	23,620
Accrued interest .....	1,200	1,013
	<u>95,921</u>	<u>81,566</u>
Total finance receivables .....	350,192	286,051
Allowance for credit losses .....	(9,506)	(7,839)
Unearned credit insurance premiums and liabilities for policyholder benefits ...	(7,037)	(6,046)
Finance receivables, net .....	<u>\$333,649</u>	<u>\$272,166</u>

At December 31, 19X8, the accrual of interest income was suspended on \$4,086,000 and \$2,107,000 of consumer and commercial loans, respectively.

At December 31, 19X8, contractual maturities of finance receivables were as follows (in thousands of dollars):

	19X9	19X0	19X1	19X2	19X3	Thereafter	Total
Consumer real estate secured . . . \$	20,963	\$10,785	\$10,474	\$ 8,480	\$ 8,917	\$72,342	\$131,961
Other .....	51,325	29,374	20,164	9,507	2,423	6,342	119,135
Commercial accounts							
receivable loans .....	32,002						32,002
Factored accounts .....	27,316						27,316
Floor plan loans .....	4,686	755					5,441
Other .....	6,140	8,243	5,192	4,934	5,453		29,962
Accrued interest .....	4,375						4,375
Total finance receivables . . . .	<u>\$146,807</u>	<u>\$49,157</u>	<u>\$35,830</u>	<u>\$22,921</u>	<u>\$16,793</u>	<u>\$78,684</u>	<u>\$350,192</u>

It is the Company's experience that a substantial portion of the consumer loan portfolio generally is renewed or repaid before contractual maturity dates. The above tabulation, therefore, is not to be regarded as a forecast of future cash collections. During the years ended December 31, 19X8 and 19X7, cash collections of principal amounts of consumer loans totaled \$57,670,000 and \$40,719,000, respectively, and the ratios of these cash collections to average principal balances were 25 percent and 29 percent, respectively.

Changes in the allowance for credit losses were as follows (in thousands of dollars):

	<i>Consumer</i>		<i>Commercial</i>				
	<i>Real Estate Secured</i>	<i>Other</i>	<i>Accounts Receivable Loans</i>	<i>Factored Accounts</i>	<i>Floor Plan Loans</i>	<i>Other</i>	<i>Total</i>
Balance as of							
December 31, 19X6 .....	\$ 762	\$3,885	\$628	\$556	\$112	\$620	\$6,563
Provision for							
credit losses .....	597	1,564	627	534	129	172	3,623
Loans charged off .....	(376)	(1,357)	(749)	(639)	(154)	(156)	(3,431)
Recoveries .....	58	490	225	192	46	73	1,084
Balance as of							
December 31, 19X7 .....	1,041	4,582	731	643	133	709	7,839
Provision for credit losses ..	651	2,090	664	583	121	175	4,284
Loans charged off .....	(448)	(1,601)	(808)	(710)	(147)	(178)	(3,892)
Recoveries .....	76	601	243	213	44	98	1,275
Balance as of							
December 31, 19X8 .....	<u>\$1,320</u>	<u>\$5,672</u>	<u>\$830</u>	<u>\$729</u>	<u>\$151</u>	<u>\$804</u>	<u>\$9,506</u>

### C. Investments in Securities

Investments in securities as of December 31 were as follows (in thousands of dollars):

	19X8			19X7		
	Cost	Market	Carrying Amount	Cost	Market	Carrying Amount
Marketable equity securities						
Common stocks .....	\$10,454	\$ 9,523	\$ 9,523	\$ 9,429	\$ 8,382	\$ 8,382
Preferred stocks .....	5,897	6,202	6,202	5,551	6,320	6,320
Total marketable equity securities .....	16,351	15,725	15,725	14,980	14,702	14,702
Other						
Government bonds .....	6,552	6,128	6,552	6,267	5,832	6,267
Corporate bonds .....	4,586	4,271	4,586	4,318	4,017	4,318
Commercial paper .....	5,897	5,897	5,897	5,551	5,551	5,551
Total other .....	17,035	16,296	17,035	16,136	15,400	16,136
Total investments in securities ..	<u>\$33,386</u>	<u>\$32,021</u>	<u>\$32,760</u>	<u>\$31,116</u>	<u>\$30,102</u>	<u>\$30,838</u>

All but \$6,710,000 and \$3,801,000 of the above investments were held by insurance subsidiaries as of December 31, 19X8 and 19X7, respectively. As of December 31, 19X8, the marketable equity securities portfolio had gross unrealized gains of \$428,000 and gross unrealized losses of \$1,054,000. The gross unrealized losses have not been reduced for their tax effects. Sales of marketable equity securities resulted in net realized gains of \$152,000 and \$183,000 in 19X8 and 19X7, respectively.

### D. Debt

Debt as of December 31 consisted of the following (in thousands of dollars):

	19X8	19X7
Senior debt		
Commercial paper .....	\$ 62,600	\$ 45,661
4% to 7% notes due 19X9—19X2 .....	73,866	47,570
7 1/2% notes due 19Y3—19Y7 .....	12,090	9,314
8% notes due 19Y2 .....	9,671	7,452
Variable interest rate notes due 19Y1 .....	4,837	3,726
Total senior debt .....	163,064	113,723
Senior subordinated debt		
6% notes due 19Y2 .....	40,000	40,000
7% notes due 19Y3 .....	34,572	34,572
8 1/2% notes due 19Y6—19Z0 .....	9,632	—
Total senior subordinated debt .....	84,204	74,572
Junior subordinated debt		
8% notes due 19Y2 .....	25,000	25,000
10 1/2% notes due 19Y3—19Y9 .....	6,400	5,500
Total junior subordinated debt .....	31,400	30,500
Total subordinated debt .....	115,604	105,072
Total debt .....	<u>\$278,668</u>	<u>\$218,795</u>

The Company maintains various bank credit agreements, primarily to support commercial paper borrowings. As of December 31, 19X8, these agreements included \$50,000,000 of formal credit lines and \$158,460,000 of revolving credit agreements. Credit lines are reviewed annually, and the revolving credit agreements consist of \$50,160,000 and \$108,300,000 expiring June 30, 19Y0, and September 30, 19Y2, respectively. As of December 31, 19X8, none of the credit lines or revolving credit agreements were in use. To support the availability of credit agreements, the Company pays commitment fees or maintains compensating balances, or both. Borrowings under these lines generally are available at the prime rate. Compensating balance and annual commitment fee requirements as of December 31, 19X8 totaled \$742,000 and \$987,000, respectively.

Data on commercial paper were as follows (in thousands of dollars):

	<u>19X8</u>	<u>19X7</u>
Weighted average interest rate at year end .....	9.2%	8.7%
Maximum amount outstanding at any month end .....	\$62,600	\$48,735
Average borrowings .....	54,131	43,867
Weighted average interest rate during the year .....	<u>9.0%</u>	<u>8.5%</u>

Maturities as of December 31, 19X8, were as follows (in thousands of dollars):

	<u>19X9</u>	<u>19X0</u>	<u>19X1</u>	<u>19X2</u>	<u>19X3</u>	<u>There- after</u>	<u>Total</u>
Senior debt .....	\$81,100	\$18,500	\$22,337	\$29,037	\$ 2,400	\$ 9,690	\$163,064
Senior subordinated debt .....				40,000	34,572	6,632	84,204
Junior subordinated debt .....				25,000	1,000	5,400	31,400
Total debt .....	<u>\$81,100</u>	<u>\$18,500</u>	<u>\$22,337</u>	<u>\$94,037</u>	<u>\$37,972</u>	<u>\$24,722</u>	<u>\$278,668</u>

The loan agreements under which certain of the senior and subordinated debts were issued contain restrictions on the payment of dividends, the purchase of common stock, and the requirements for maintenance of certain financial ratios and other financial conditions. Under the most restrictive of the dividend payment provisions, approximately \$21,056,000 of consolidated retained earnings were free of such restrictions as of December 31, 19X8. Requirements for maintenance of certain financial ratios and other financial conditions have the effect of requiring maintenance of consolidated shareholders' equity at certain minimum amounts; as of December 31, 19X8, consolidated equity exceeded this minimum amount by approximately \$38,600,000.

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**Note:** See appropriate FASB and AICPA pronouncements for additional guidance in presenting other information required by generally accepted accounting principles, such as disclosures about insurance activities, segment data, lease commitments, employee benefit plans, and income taxes.

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